

Why Can't We Fix the State Deficit?



Daniel J.B. Mitchell
PP 290 - April 24, 2006

What is a “deficit”?



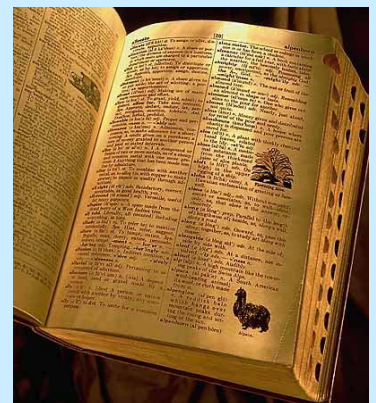
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“Deficit” should mean income less than expenditure

- *Income = taxes, fees, receipts from feds, interest earned on state funds, etc.*
- *Expenditure = state purchases (including wages), grants to other governments, transfers to individuals, debt service on state debt, etc.*
- *Usually, we refer to the “general fund” when we talk of the state budget deficit or surplus.*

GF = 75-80% of total budget



Lots of Other Funds:

Examples

- **Film California First Fund**
- **Bicycle Transportation Account**
- **Abandoned Watercraft Abatement Account**
- **Bureau of Thermal Insulation and Home Furnishings Fund**
- **California Collegiate License Plate Fund**



LAO Projections Last Fall

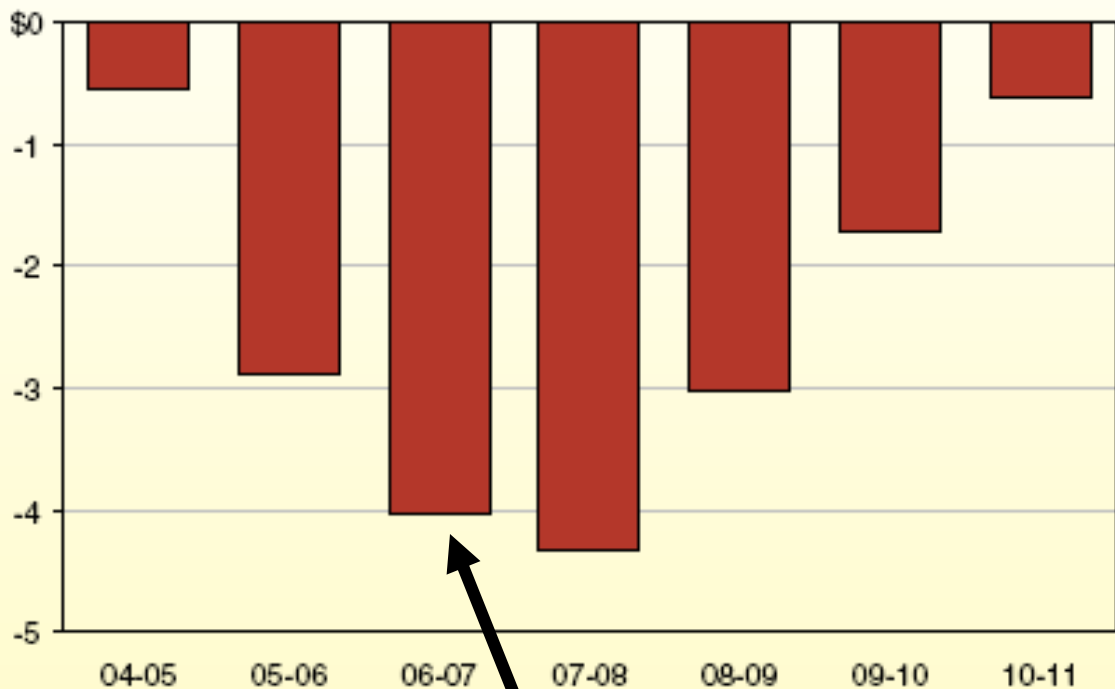


Deficits

Figure 3

Operating Shortfalls to Persist, but Narrow^a

General Fund (In Billions)



^aAnnual revenues minus expenditures excluding use of deficit-financing bonds.

-\$4.0



Governor's Budget Proposal for 2006-07

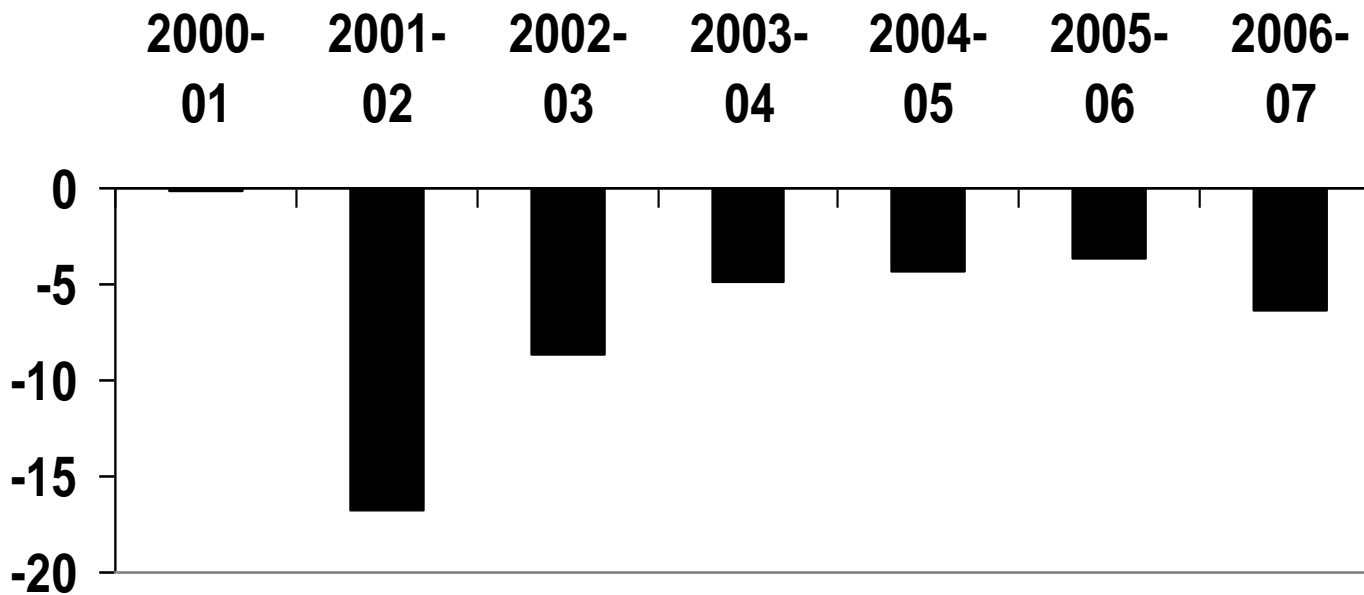
- ☐ **Income = \$92.0 billion**
- ☐ **Expenditure = \$97.9 billion**
- ☐ **Deficit = -\$5.9 billion (bigger than LAO's fall 2005 -\$4 billion projection)**
- ☐ **“Reserve” drops from \$7.0 billion (borrowed under Props 57 and 58) to \$1.1 billion**
- ☐ **New infrastructure proposal to be financed by borrowing and existing revenues outside the general fund**





Mitchell's adjustments

**General Fund Deficits as Percent of Adjusted
Revenues & Transfers: Fiscal Years**



**existing revenues outside the
general fund**



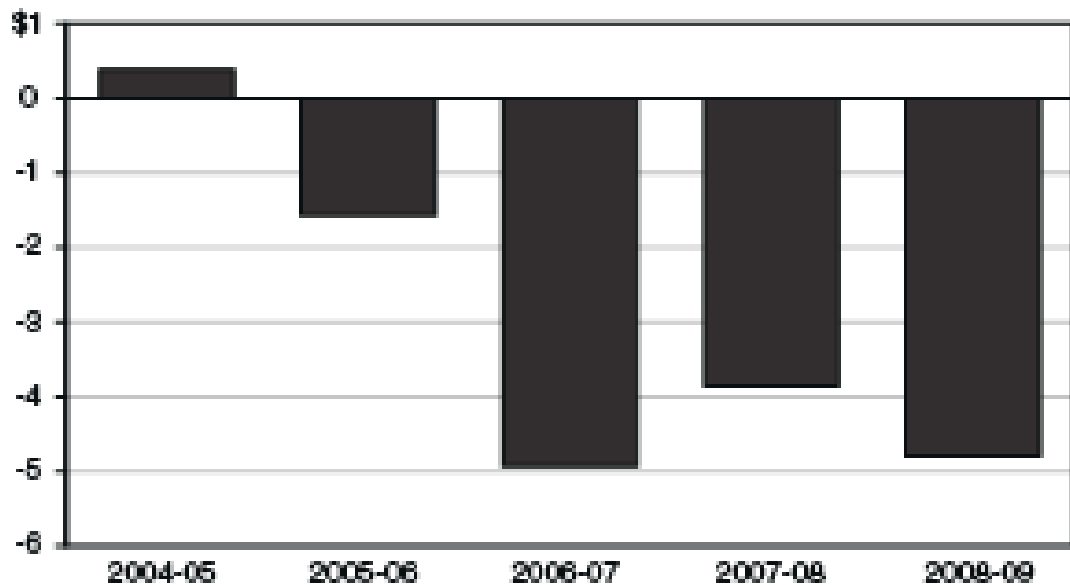
LAO's Feb. 2006 analysis



Figure 5

**Operating Shortfalls^a Persist,
Despite Booming Revenues**

General Fund (In Billions)



^aAnnual revenues minus expenditures. Legislative Analyst's Office estimates of Governor's revenue and expenditure policies.

general fund





A cartoonist's viewpoint

's Budget or 2006-07



existing revenues outside the
general fund



Governor's Budget Proposal for 2006-07



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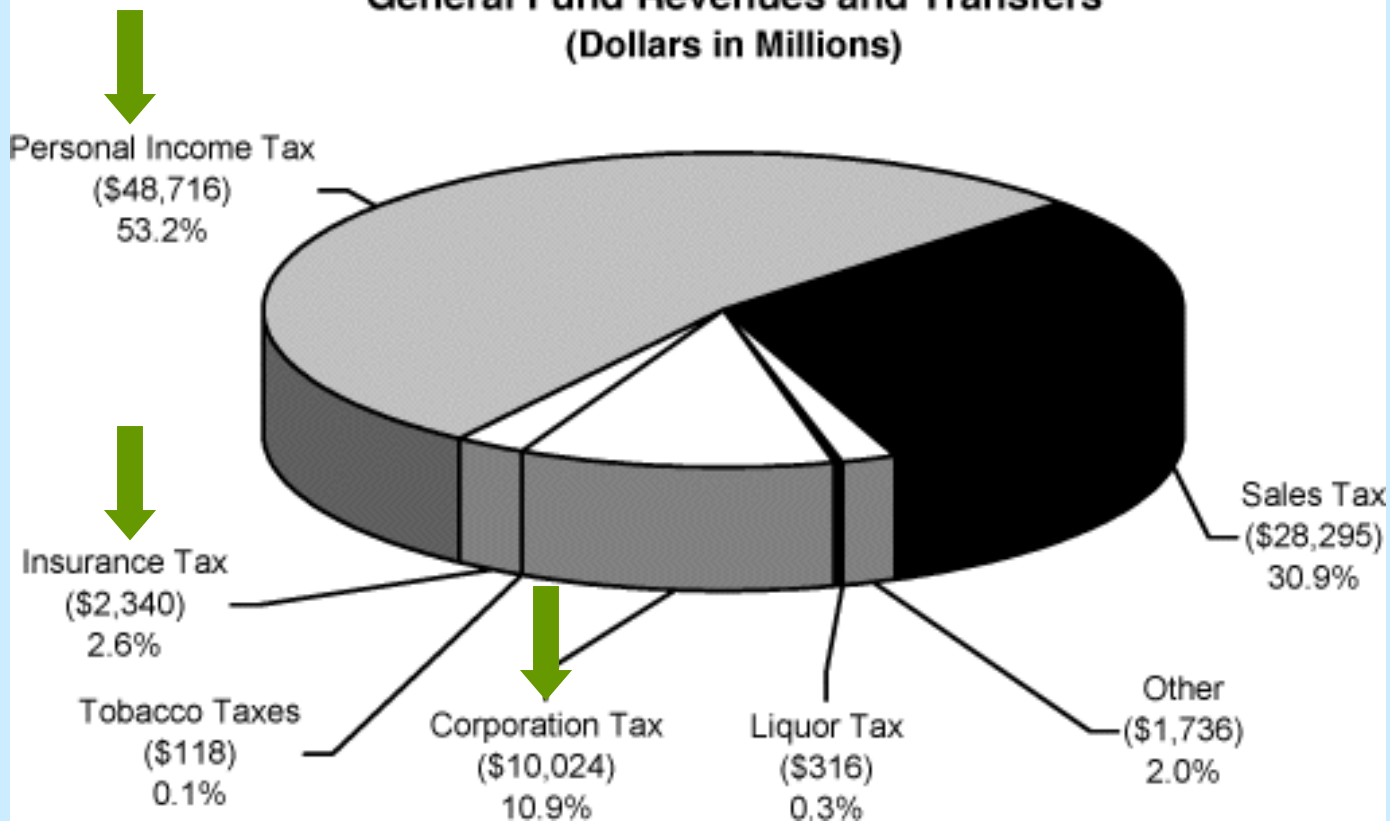
No “Plan B” if
economy turns down.





Governor's Budget Proposal for 2006-07

2006-07
General Fund Revenues and Transfers
(Dollars in Millions)



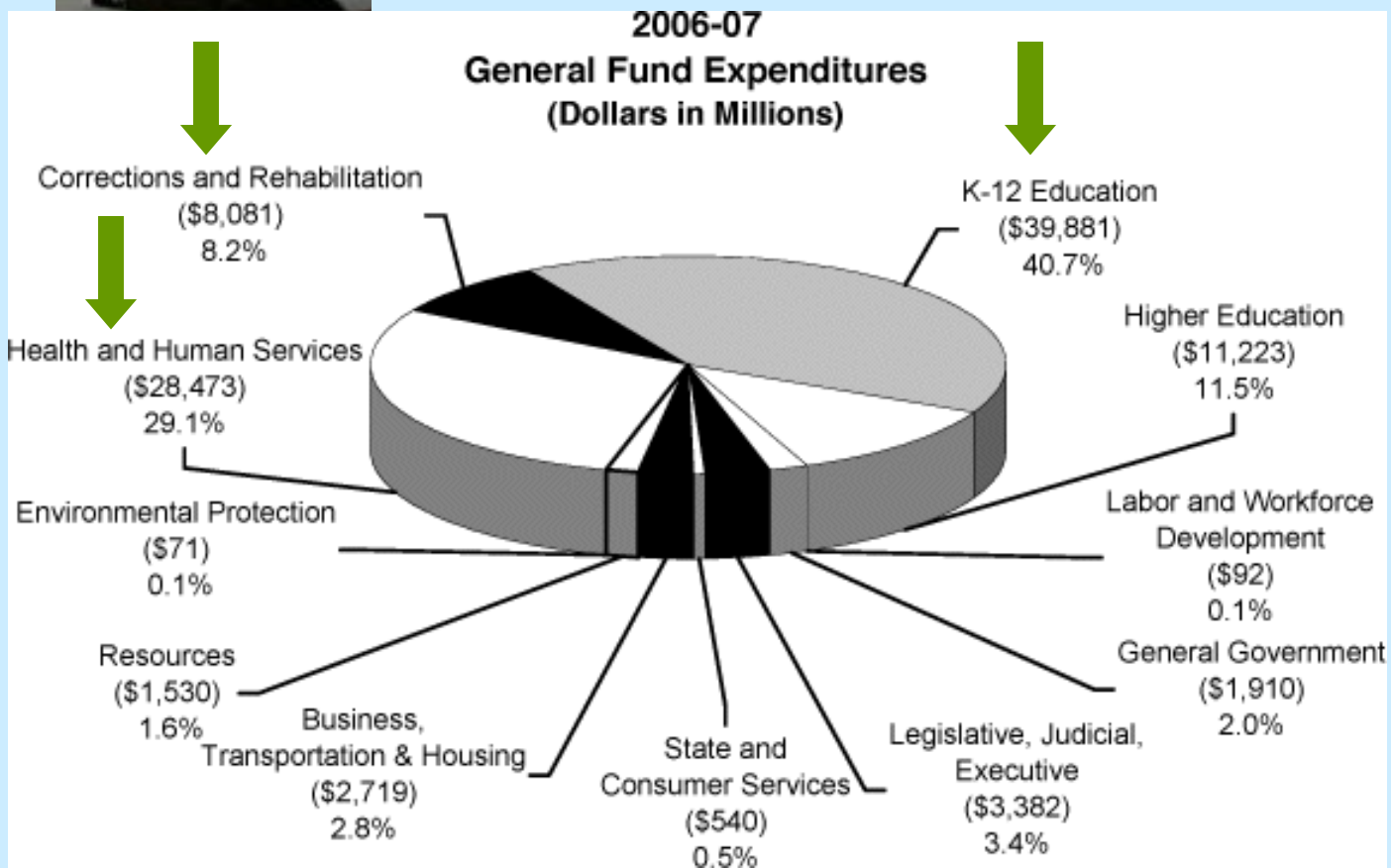
be financed by borrowing and existing revenues outside the

Note cyclically sensitive income and profit-related taxes.





Governor's Budget Proposal for 2006-07



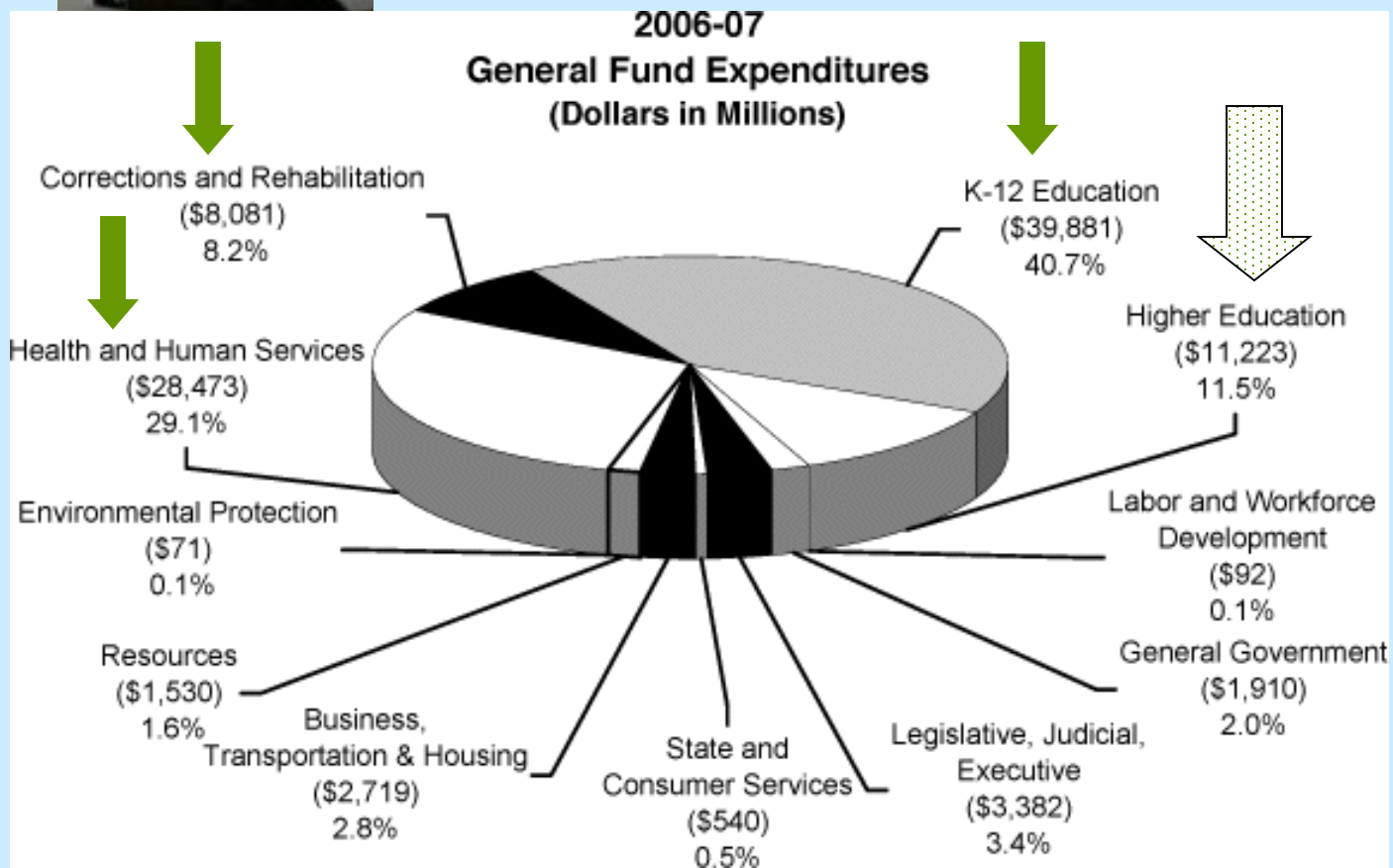
■ New infrastructure proposal to be financed by borrowing and existing revenues outside the

Client or proposition-driven expenditures





Governor's Budget Proposal for 2006-07



■ New infrastructure proposal to

Prop 98 covers K-12 plus community colleges (\$4.7 billion of the \$11.2 billion for higher education).

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**What is the underlying
cause of our present deficit?**

Term limits?

Gerrymandering?

Voter mandates?



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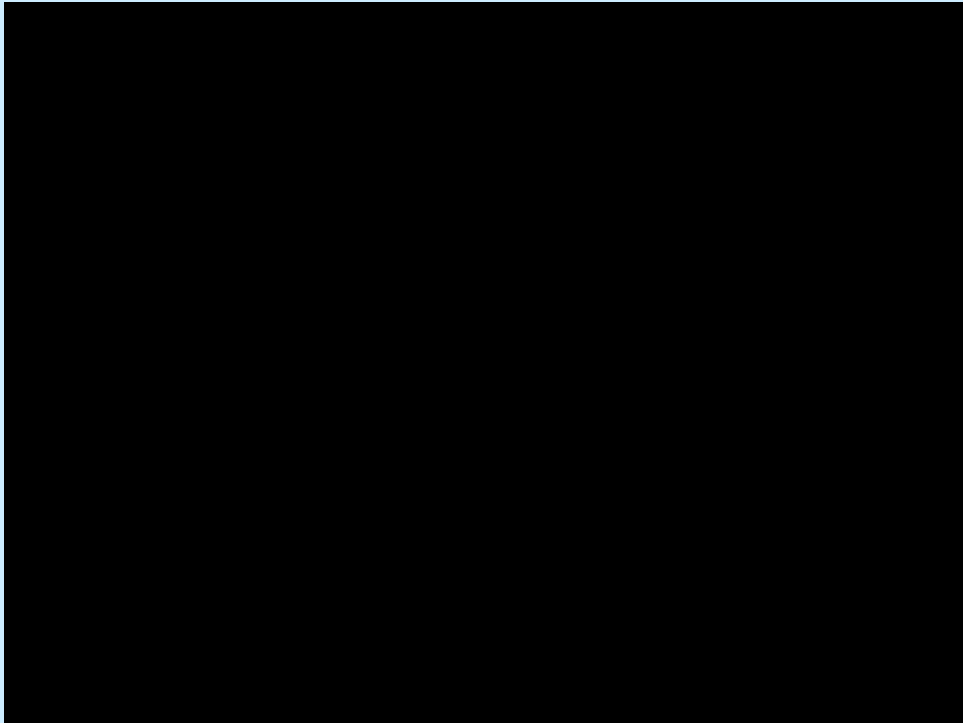
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The Ballot Box Solution?



**Two governors
have tried it.**

The Ballot Box Solution?



The Ballot Box Solution?



**Two governors
have tried it.**



“It is my preference to go and work with the legislators. This is my No. 1 preference.”

-Gov. Schwarzenegger



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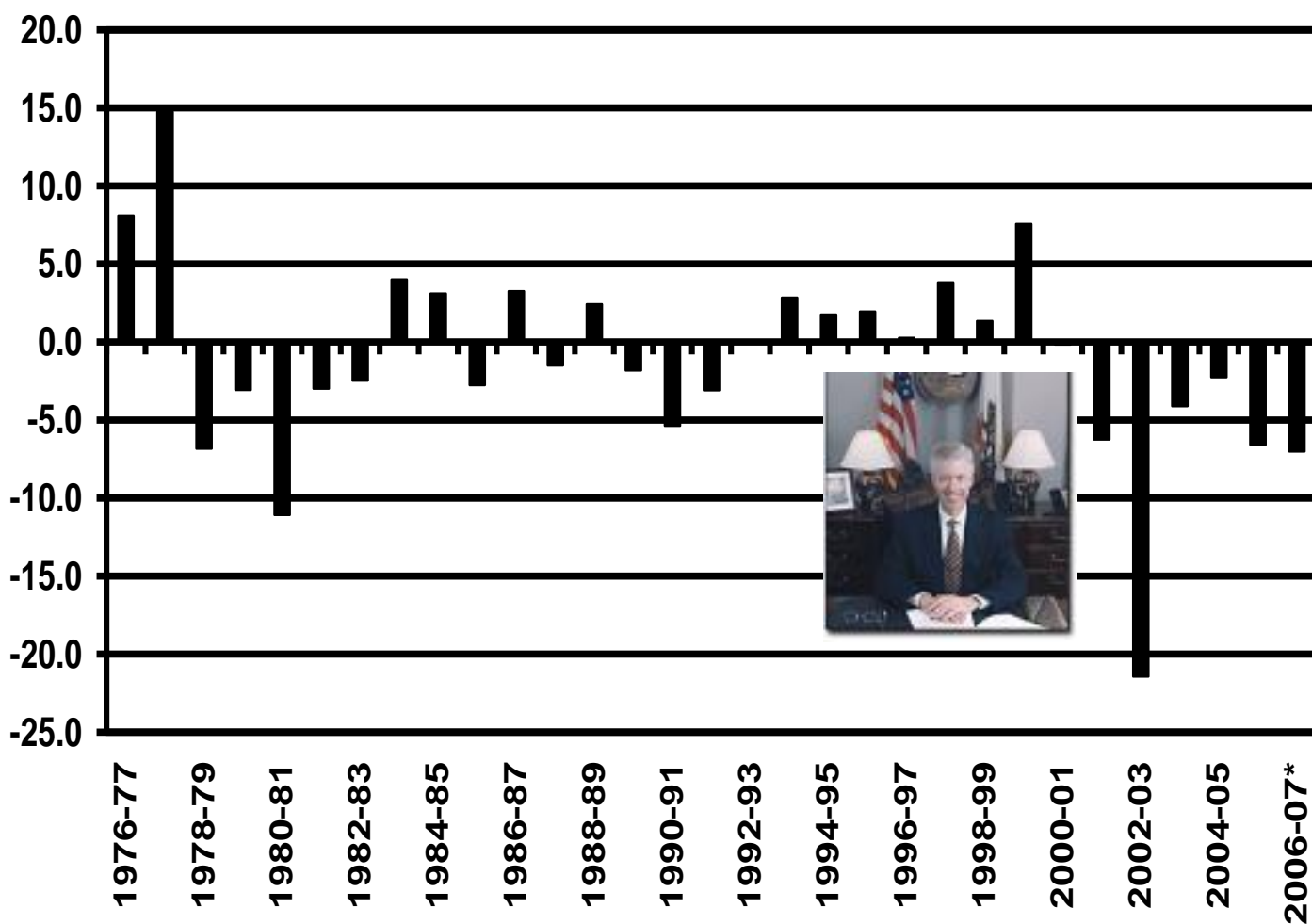
“They can join and jump on the train. No. 2, they can go and stay behind and just wave... Or, No. 3, they get in front of the train. And you know what happens then.”

Gov. Schwarzenegger

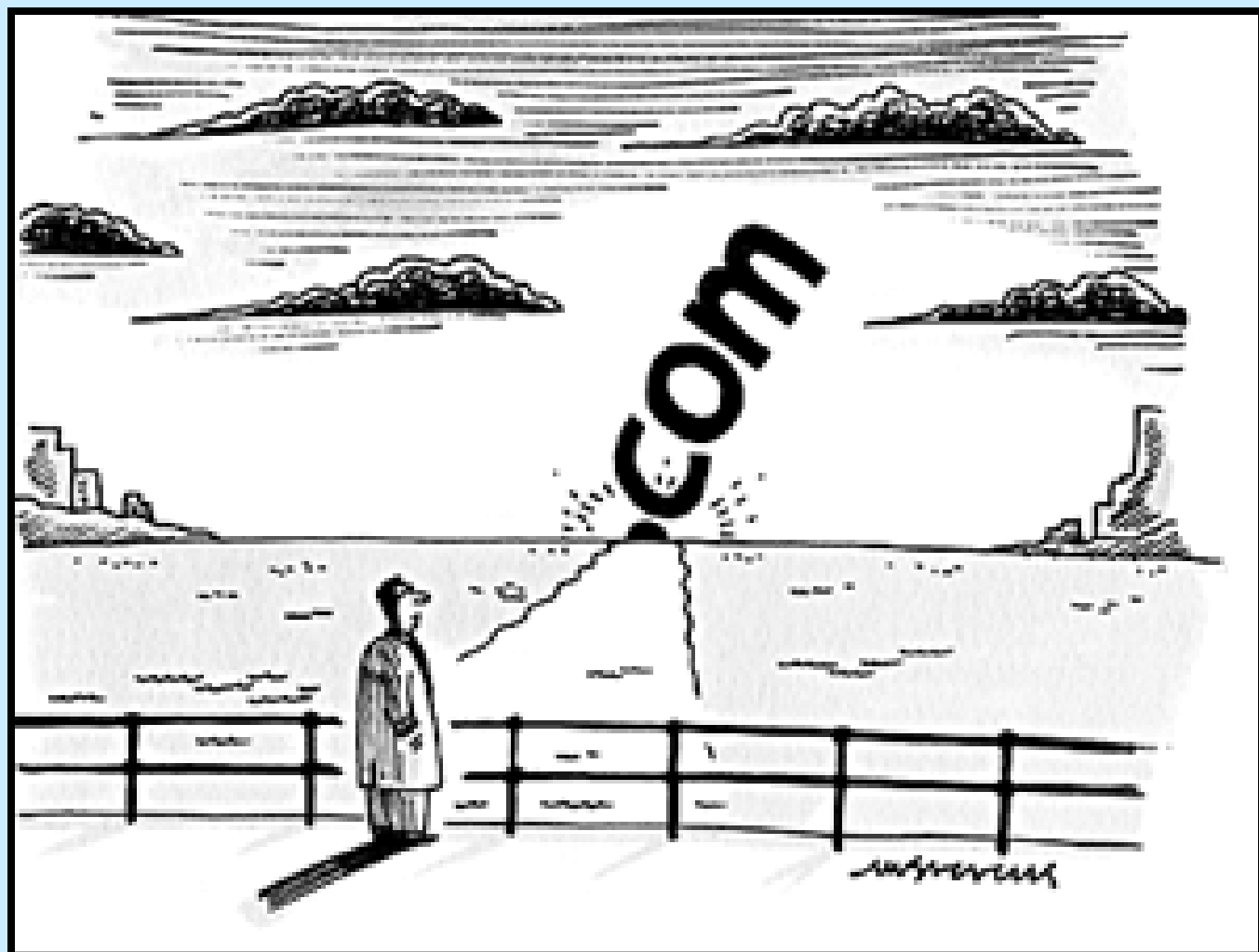


Why the deficit? Short-term answer. Peak problem.

Surplus or Deficit as % of Revenue



Note: Small deficit at business cycle peak



Sunset of the Davis Era



Groping for a Solution





Longer Term

Once upon a time...



*How California got its
freeways (and other
things).*



Infrastructure!



Standard Story

- **Gov. Pat Brown (1959-67)
did it.**



Standard Story

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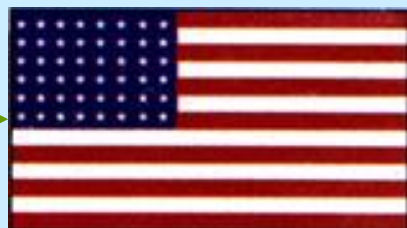
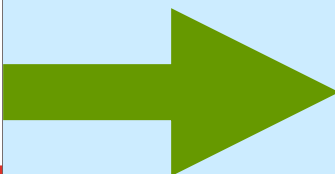
Standard Story

- **Gov. Pat Brown (1959-67)
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Standard Story

- **Gov. Pat Brown (1959-67)** did it.
- **Problem:** Brown got much of his road money from the federal govt.
- **Issue:** *Where did the funding model for the feds come from?*
- **Argument:** California!

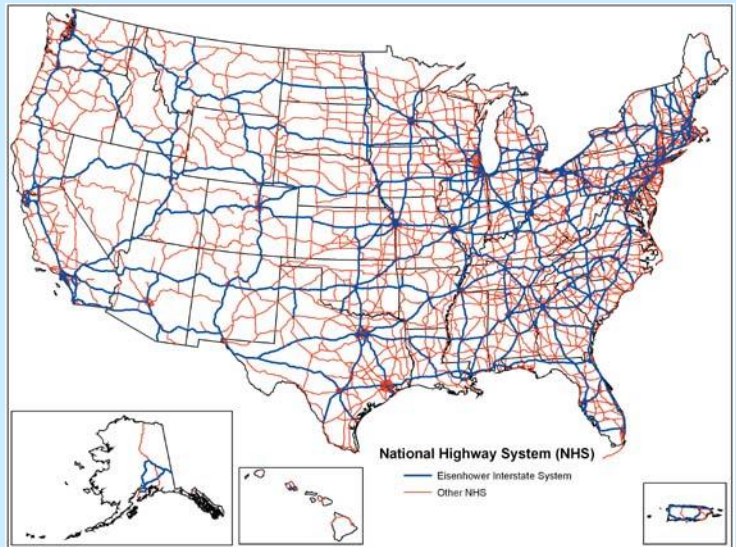


***“Germany ... made me see the wisdom
of broader ribbons across the land.”***

Dwight D. Eisenhower



1956: Federal Interstate and Defense Highway System Legislation



Federal-Aid Highway Act of 1956

An Alternative California-centric Tale



Gov. Olsen dedicates Arroyo Seco Parkway

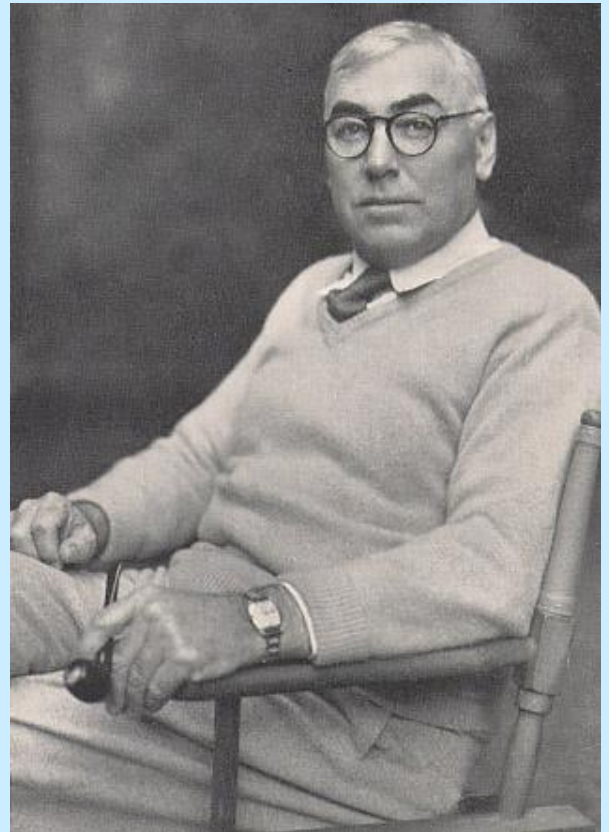
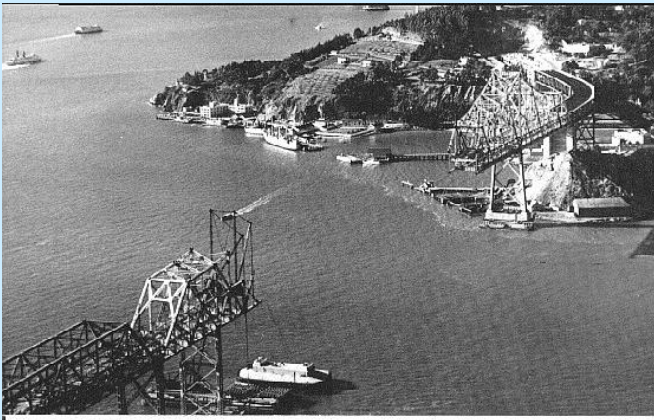


...later known as the
Pasadena Freeway

Earl Warren



Charles H. Purcell



1940s Legislature

**“How are you today
Mr. Legislature?”**



Arthur H. Samish

***Collier's*, August 1949**

Building of Lakewood, California



Annual rate of
growth:

Calif.: 4.4%

U.S.: 1.4%

California Population in 1940:

7 million

California Population in 1950:

10.6 million

Revenue Source: *Gas Tax*



Opposition from oil companies

Revenue Source:

Gas Tax

User fee.

Drive more; pay more.

**Drive heavy car with low gas mileage
and more road wear; pay more.**

**Drive at peak hours and contribute to
congestion; pay more.**



Opposition from oil companies

Buses and Trucks



Let cars pay for it.

Collier-Burns Act (1947)

- **Proposal: Put gas and other motor-vehicle related taxes into trust fund to avoid “diversion”**
- **Raise gas and related taxes to build freeways and other roads**



Collier-Burns Act (1947)

- **North vs. South**
- **Rural vs. Urban**
- **Buses & Trucks vs. Cars**
- **Utilities want reimbursement for moving poles**
- **Main opposition: Oil companies**



Collier-Burns Act (1947)

- **Warren works with contacts in legislature in both parties**
- **Radio addresses**
- **Press interviews and public statements**

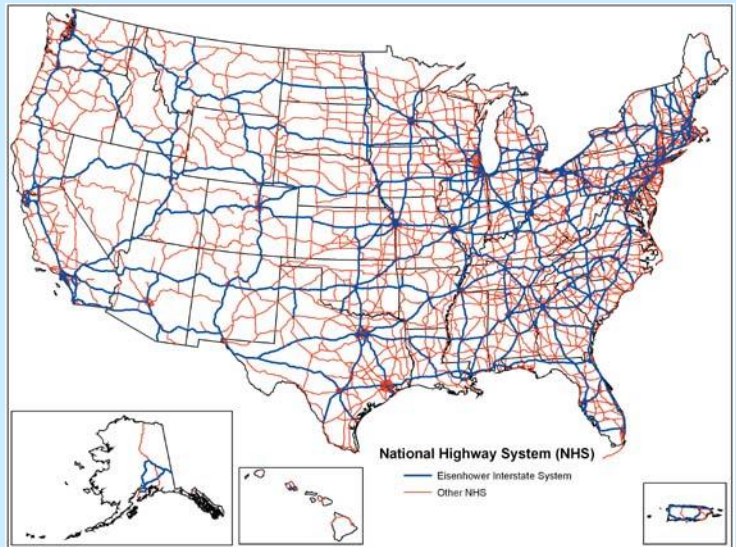


Success!

Collier-Burns Act (1947)



1956: Federal Interstate and Defense Highway System Legislation

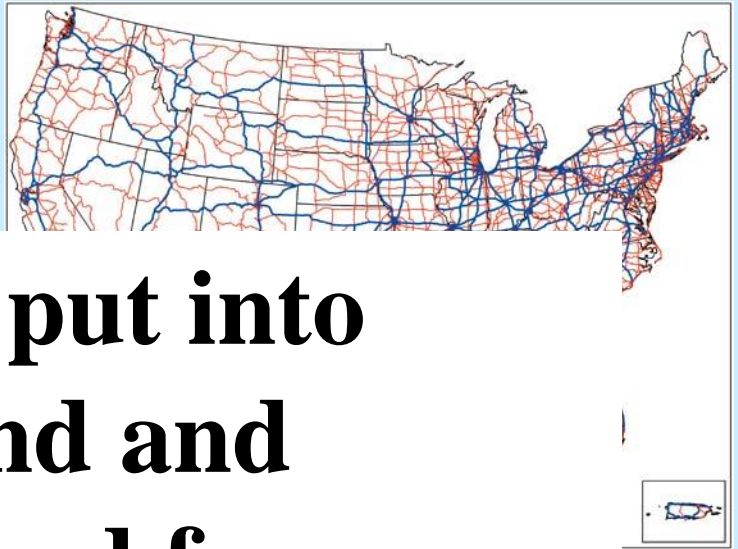


An interstate is born: The first was I-70 in Missouri and Kansas.



Federal-Aid Highway Act of 1956

1956: Federal Interstate and Defense Highway System Legislation



Gas tax put into trust fund and earmarked for interstate highway system.



An interstate is born: The first was I-70 in Missouri and Kansas.

OBJECT
TES
STARTED
W
F 1956
SIGN



Federal-Aid Highway Act of 1956

**Randolph Collier,
“Father of the American Freeways”
City of Yreka, CA
Dedicated 1995**



**Earl Warren,
“Father of the American Freeways”**



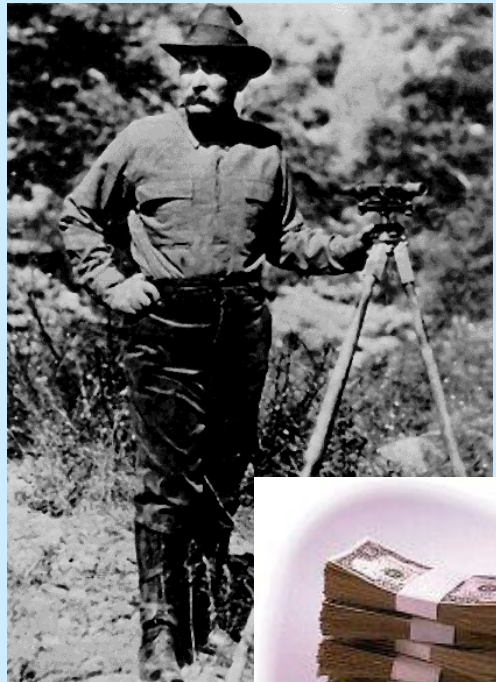
More accurate

**Earl Warren,
“Father of the American Freeways”**

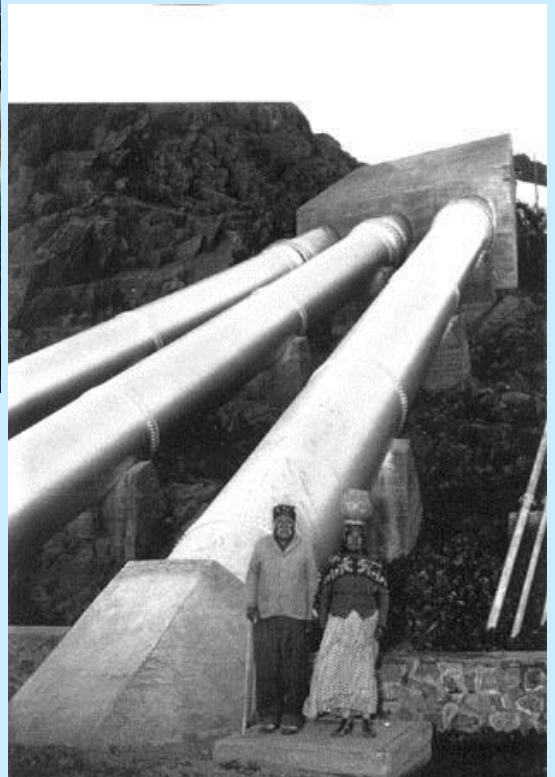


***Warren had the
benefit of "trust"***

Owens Valley Project



Colorado Water Project





The California Deal

- **Vote bonds for water projects**
 - Get water paid for in water bills
- **Pay gas and related taxes**
 - Get roads and freeways
- **Pay state taxes**
 - Get higher education
- **Pay property tax**
 - Get schools, police, fire





The California Deal

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**What happened
to the deal?**



Howard Jarvis and Paul Gann celebrate



**Passage of Prop 13
(1978)**

**BOTTOM LINE
QUESTION:**



***Why did we have a
taxpayer revolt?***

**BOTTOM LINE
QUESTION:**



*Why can't we fix our
state deficit?*

**BOTTOM LINE
ANSWER:**



***Killing of trust in the
California Deal***

Restoring trust

*Serious conversation – not soundbites
– needed between governor and the
people on budget & infrastructure.*



**And if that doesn't
work...**



Info Sources



- **Dept. of Finance**
 - www.dof.ca.gov
- **Legislative Analyst's Office**
 - www.lao.ca.gov
- **Sacramento Bee**
 - www.sacbee.com



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